

# CONSUMERS GUIDE TO OBTAINING A HOME MORTGAGE

Massachusetts's law requires that this Guide be provided to you when you obtain a mortgage loan applications, or it may be obtained upon request from any lender at any time. It is designed to help you understand the home mortgage application and approval process and the practices common to mortgage lending in the Commonwealth of Massachusetts. Words and terms in bold print are defined in the Glossary. The lender will also provide a Real Estate Settlement Procedures Acts (RESPA) Booklet entitled "Settlement costs", a one-page worksheet which will allow you to calculate easily all the charges and fees you are likely to incur when securing your mortgage; and, if applicable, the "Consumer Handbook on adjustable Rate Mortgages" (ARMS). A good faith estimate of all costs involved in a mortgage transaction may also be requested from the lender.

## FILING A MORTGAGE APPLICATION

As a Borrower, you will be asked to fill out a mortgage **application**. In order to determine what best suits your needs and circumstance, you should ask questions and carefully study the various types of **mortgages** and options available to you. Two of the most common types of mortgages are **fixed** and **adjustable rates**. A common option is a **rate-lock/interest rate commitment**. You must keep in mind that lending practices vary from **lender** to lender and some terms and procedures may not apply to the refinancing of an existing mortgage.

When filling out an application, it will be helpful for you to have supporting documents and information, such as the signed Purchase and Sale Agreement, account numbers for each of your deposit accounts, information on income, outstanding loans, real estate holdings and any other information the lender may require. An application fee, which is often non-refundable, may be required.

## THE MORTGAGE APPROVAL PROCESS

Once the application form has been filled out, the lender will make a decision based upon your creditworthiness and the property's value by considering the following:

Your ability to repay the loan - This is determined by evaluation the information you furnish on your application and verifying your place and length of employment, your deposit accounts and other assets, your income from employment and other sources, and your rental income and expenses, if any.

Your willingness to repay the loan - This is determined by checking your credit history through a credit bureau, your loan references with other creditors, and the history of your residency and mortgage and rental payment.

Whether the value of the property is sufficient to secure the loan - This is determined by obtaining an **appraisal** of the property; by confirming that the **loan-to-value ratio** requirements are met; and, in the case of a construction loan, by approving the plans. You may request a copy of the appraiser's report.

In addition, a lender may require that the terms and conditions of the loan satisfy **secondary mortgage market** requirements. As further conditions for approval, the lender may require that you obtain **private mortgage insurance** and **title insurance**. You may also be required to pay your taxes, betterment's and/or insurance into an **escrow account**.

When the lender has a completed application, you may be sent a letter offering you a mortgage loan on the terms you requested or on somewhat different terms. The latter is known as a **counter-offer**. If the application is approved and you find the terms of the **commitment letter** acceptable, you must accept

those terms in writing. However, the lender may send you a letter denying the mortgage loan. If the application is denied, the lender must give you a specific and accurate reason(s) for denial.

## **TIME PERIODS FOR NOTICES AND DISCLOSURES**

In general, the overall time period from date of application to **closing** is approximately 4 to 6 weeks. Certain other factors, however, may cause delays. During this time several notices and disclosures must be provided to you.

Within three business days of the application, you will be given the **Truth-in-Lending** credit disclosure, and, if applicable, the **RESPA** disclosure.

The lender must inform you of the status of your application no later than 21 business days from the date of application. By that time the lender must either:

1) Approve or deny your application. In this case, you will be given no further notices on the status of your application; or,

2) Mail or deliver to you an oral or written statement that your application is not substantially complete and indicate the following; what verification information it requires to make a decision on your application; what information has been received but is not complete; and what information has not yet been received. If you receive this type of notice, then, after the lender receives the missing or incomplete information, you will receive a notice that your application is complete or be informed of the lender's decision on your application. This may be an approval, a denial, or a counter-offer; or,

3) Give you written notice informing you that your application is substantially complete but that more information may be required by certain third parties. If you are sent this type of notice, you will receive within 30 days a letter informing you of the lender's decision on your application. This may be an approval, a denial, or a counter offer.

If the application is denied, the **Equal Credit Opportunity** Act requires an **adverse action** notice to be sent within 30 days of the completed application stating a specific and accurate reason(s) for the action taken. A counter-offer that is not accepted by the borrower extends the notice period to 90 days. You will also be notified upon denials to whether you may appeal the decision to a **Mortgage Review Board**.

## **OTHER NOTICES**

Additional notices or disclosures you may receive during the application process are Notice of **Right of Rescission**, **Urea Formaldehyde Foam Insulation (UFFI) Notice**, and the availability of the appraisal.

## **THE CLOSING**

The closing represents the final step in the mortgage application process. An attorney will do a **title search** on the property, prepare the legal documents necessary for the closing of the loan, and provide you and/or your attorney with the exact **closing costs**. The closing attorney may be hired directly by the lender or the lender may permit you to select the attorney. Massachusetts law requires that you be notified at the time of application that the lender's attorney represents the lender and that you may want to hire your own attorney to represent you. You will, however, most likely have to pay for the services of both the lender's attorney and your own attorney.

## GLOSSARY

**Adjustable or Variable Rate Mortgage (ARM or VRM)** - a mortgage loan in which the interest rate varies in accordance with changes in a specified index, and may result in changed monthly payments. For further information, refer to the "Consumer Handbook on Adjustable Rate Mortgages".

**Adverse Action** - a denial of a loan in an amount and on terms acceptable to the borrowers.

**Annual Percentage Rate (APR)** - the actual cost of credit to the borrower, including interest and certain other charges, expressed as a yearly rate and calculated over the life of the loan. A guide to compare the cost of loans.

**Application** - an oral or written request for an extension of credit. Usually a printed form on which the lender collects credit, income and debt information about a prospective borrower, plus facts about the property being used to secure the loan. A fee may be charged at the time of application.

**Appraisal** - an inspection of the property to assure that its market value exceeds the amount of the loan. A fee may be charged for the appraisal.

**Borrower** - the person, sometimes referred to as the mortgagor, who obtains a mortgage loan.

**Closing** - the time and date set for the transfer of the property from seller to buyer and/or for the signing of the loan documents.

**Closing or Settlement Costs** - fees, in addition to the purchase price of the property, charged at closing which include but are not limited to lawyer's fees, title search and insurance, survey charges and fees to record the deed, mortgage and other documents. For further information, refer to the booklet entitled "Settlement Costs".

**Commitment Letter** - a lender's written offer to grant a mortgage loan outlining the terms, the amount of the loan, the interest rate and other conditions. It can also serve as a communication of the lender's decision on the borrower's application.

**Counter-Offer** - an offer made by the lender to grant credit other than in the amount or terms requested by the applicant.

**Equal Credit Opportunity Act** - federal and state laws that prohibit discrimination in the granting of credit based on race, color, religion, national origin, sex, marital status, age, or whether a person is receiving public assistance or alimony.

**Escrow Account** - money collected in advance by the lender, usually on a monthly basis, for the payment of real estate taxes, betterment's and/or insurance.

**Fixed Rate Mortgage** - a conventional mortgage loan with set interest rate and equal monthly payments for the entire term of the loan.

**Lender** - the entity or person, sometimes referred to as the mortgagee, who offers the mortgage loan.

**Lien** - a legal claim, granted by contract or by a court, against property. A mortgage is one kind of lien.

**Loan-to-Value Ratio** - the percentage comparison between the unpaid principal balance of the mortgage and the sales price and the appraised value of the property, whichever is lower.

**Mortgage** - a **lien** placed by the lender on the borrower's property and removed when the note has been paid in full. If the borrower defaults on the **note**, the lender can sell the property to satisfy the debt.

**Mortgage Review Board** - a voluntary board consisting of an equal number of lenders and community representatives who will review the residential mortgage loans denied by participating lenders where the applicants believe the denial was based on the location of the property.

**Note** - the borrower's legally binding written promise to repay a debt to a lender on a specified date.

**Point** - an often non-refundable sum of money, equal to one percent of the principal amount of a mortgage, charged by the lender to cover certain costs of making a loan. The number of points that may be charged is limited by law.

**Private Mortgage Insurance** - protection for lenders against borrower default. Paid for by the borrower and usually required when the down payment is less than 20% of the purchase price.

**Rate-Lock Agreement/Interest Rate Commitment** - a written agreement by which a lender will hold an interest rate on a mortgage for a specified period of time. The terms and conditions of a rate lock agreement vary from lender to lender.

**(RESPA) Real Estate Settlement Procedures Act** - a federal law that requires a good faith estimate of closing costs required to be given on certain first mortgages. For further information refer to the booklet entitled "Settlement Costs".

**Right of Rescission** - state and federal laws that allow consumers who refinance first mortgages and certain second mortgages to cancel their contract and receive a refund of all fees. This must take place within three business days following the closing, or following the delivery of the required information and rescission forms and disclosures, whichever occurs last.

**Secondary Mortgage Market** - investors who purchase residential mortgages originated by lenders.

**Title Insurance** - protection against loss due to defects in the title that were not uncovered in the title search and not listed in the title report. Both the lender and the borrower may purchase title insurance to protect their own interests.

**Title Search** - an examination of legal records to check the validity and completeness of the title to the property. The title search should uncover any lien, overdue assessments or other claims against the property.

**Truth-in-Lending** - federal and state laws that require lenders to provide borrowers with full disclosure of the true cost of a loan and easy-to-understand information about the **annual percentage rate** and terms of the loan.

**Urea Formaldehyde Foam Insulation (UFFI) Notice** - a state law requiring borrower or seller to disclose to a lender the absence or presence of UFFI and the formaldehyde level in a dwelling.

